

Tax Alert

Deduction for State and Local Sales Tax Benefits Some Taxpayers, But Not All

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The break allowing taxpayers to take an itemized deduction for state and local *sales* taxes in lieu of state and local *income* taxes was made “permanent” a little over a year ago. This break can be valuable to those residing in states with no or low income taxes or who purchase major items, such as a car or boat.

Your 2016 Tax Return

How do you determine whether you can save more by deducting sales tax on your 2016 return? Compare your potential deduction for state and local income tax to your potential deduction for state and local sales tax.

Don’t worry — you don’t have to have receipts documenting all of the sales tax you actually paid during the year to take full advantage of the deduction. Your deduction can be determined by using an IRS sales tax calculator that will base the deduction on your income and the sales tax rates in your locale, plus the tax you actually paid on certain major purchases (for which you will need substantiation).

2017 and Beyond

If you’re considering making a large purchase in 2017, you shouldn’t necessarily count on the sales tax deduction being available on your 2017 return. When the PATH Act made the break “permanent” in late 2015, that just meant that there’s no scheduled expiration date for it. Congress could pass legislation to eliminate the break (or reduce its benefit) at any time.

Recent Republican proposals have included elimination of many itemized deductions, and the new President has proposed putting a cap on itemized deductions. Which proposals will make it into tax legislation in 2017 and when various provisions will be signed into law and go into effect is still uncertain.

Questions about the sales tax deduction or other breaks that might help you save taxes on your 2016 tax return? Or about the impact of possible tax law changes on your 2017 tax planning? Contact us — we can help you maximize your 2016 savings and effectively plan for 2017.